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UNCLAS SECTION 01 OF 02 MAPUTO 000399

SIPDIS

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SUBJECT: IMPACT OF RISING FOOD/COMMODITY PRICES - MOZAMBIQUE

REF: A. STATE 39410

[B](#). MAPUTO 231

[C](#). 07 MAPUTO 1341

[1](#). This message responds to the request (ref A) for Mission Maputo's analysis on how rising food and agricultural commodity process are affecting Mozambican society. As instructed, it also lists post's recent cables on agricultural issues.

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Demand  
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[2](#). Mozambique's most important food commodities are corn and cassava, trailed by rice and wheat. While the country produces corn, cassava, wheat and rice, it primarily meets its needs for wheat and rice through imports. According to the Ministry of Agriculture, the country will import 1.25 million tons of grain in 2008. Retail prices for these goods have increased significantly this year. For example, a 50-lb bag of rice has tripled from approximately USD 12 to USD 36 in the past 12 months. The GRM, which sets ceiling prices for bread, mostly an urban staple, raised the price of the least expensive loaves by 125 percent at the beginning of the year. The GRM has urged for consumption substitution, and Eduardo Mondlane University researchers have created an ingredient mix that replaces 15 to 25 percent of wheat flour for lower-cost cassava in bread. While this type of innovation has met with some success, in general breadmakers have responded to the higher costs and concomitant price ceiling by reducing the size of loaves. As the vast majority of Mozambicans live below the poverty line, price increases have had an inordinately negative effect on the urban poor.

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Supply  
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[3](#). The food crop sector has experience sustained growth over the past decade, during which total cereal production has more than doubled. However, increased national output masks a mixed performance at the regional level owing to erratic seasonal rains and periodic drought and flooding. The south and southern-central parts of the country have been most affected over the past three years. The northern-central and northern provinces, which are the most productive areas of the country, have continued to produce bumper crops. Initial data does not yet indicate whether domestic production is responding to the most recent changes in prices. The sector remains affected by serious weaknesses, including poor infrastructure, low productivity, market fragmentation, and unpredictable weather conditions. Although many roads have been rehabilitated, large parts of the country, particularly the more fertile northern regions, are isolated and often

inaccessible during the rainy season. Internal marketing of surpluses from northern provinces is also restricted by the large distances over which food has to be transported, and provinces in the south are more competitively supplied by South Africa.

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Political Impact  
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¶4. Maputo suffered violent protests on February 5 after the GRM increased bus fares in response to rising fuel prices. The bus fare increase occurred after bread prices were also raised in January, and the rioting was viewed as a culmination of urban frustration in the face of these changes. The government's immediate response to the rioting was inadequate, though in the longer term, the GRM appears to be making some efforts to address sustainable economic growth for the country, and has installed new ministers with reputations as competent technocrats in several ministries with economic development oversight.

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Economic Impact  
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¶5. Initial data for 2008 from the GRM does not yet indicate that rising food prices have had a significant effect on inflation, balance of payments, trade balance, or the fiscal situation. Nonetheless, in late April the GRM queried international donors about the possibilities for access to programs that could provide commodities at reduced prices or

MAPUTO 00000399 002 OF 002

funding for commodities, and officials have expressed concern publicly that the GRM may have to begin subsidizing food prices (bread) this year. The GRM has expressed interest to mission officials in rejuvenating a PL480 Title I program, even though GRM officials understand that no government-to-government program can be contemplated until a farm bill is passed in the U.S. Congress.

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Gov't Policy Response  
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¶6. The GRM has publicly made food crop production a national priority, and much of Mozambique's arable land remains uncultivated. From a total request of 3 million hectares by private companies to produce biofuels, the GRM has authorized only 30,000 hectares of Mozambique's arable land to this purpose. In late April, the cabinet-level Council of Ministers approved guidelines for a program for the country to increase food production (wheat, rice, potatoes and cassava), food processing and production and use of fertilizers aiming at ensuring stability. The program includes an increased budget for agriculture (through revision of the general budget), fiscal incentives, investment in research and in agro-processing, massive training of agricultural extensionists, electrification of rural areas, and local production of fertilizers. An inter-ministerial commission led by the Ministry of Agriculture is to coordinate this program. The GRM also plans to launch in the near future a market friendly (smart subsidy input provision program) to increase the use of improved food crop seed and fertilizer. USAID is providing technical assistance to develop and implement this program.

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Impact on Post Programs  
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¶7. The current situation does not affect ongoing USG projects/activities in the country from a policy perspective. Indeed, several of the activities under PL480 (Borlaug and Food for Progress, for example) are specifically designed to

address the needs and support the government's activities noted above. However, inflation and increased expenses while funding levels have remained static means that some programs can no longer provide as much concrete support as before.

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Policy Proposals  
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18. The mission continues to encourage the GRM's long-term plans to increase agricultural production through investment and development. Meeting the immediate, serious impact on poor and low-income consumers is probably best handled through targeted assistance, cash transfers, or other direct means of support that will get food on their tables, but not interfere with the market price signals that tell farmers to produce more.

Chapman